

# City and County of San Francisco

Office of the Controller – City Services Auditor

## AIRPORT COMMISSION:

### Compliance Audit of Virgin America, Inc.

GOVERNMENT  
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July 29, 2009

**CONTROLLER'S OFFICE  
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Elisa Sullivan, Audit Manager  
Edwin De Jesus, Associate Auditor



CITY AND COUNTY OF SAN FRANCISCO  
OFFICE OF THE CONTROLLER

Ben Rosenfield  
Controller

Monique Zmuda  
Deputy Controller

July 29, 2009

San Francisco Airport Commission  
P.O. Box 8097  
San Francisco International Airport  
San Francisco, CA 94128

President and Members:

The Controller's Office, City Services Auditor, presents its report concerning the compliance audit of Virgin America, Inc. (Virgin America). Virgin America has an airline operating permit from the Airport Commission of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport (SFO) for its air transportation business.

**Reporting Period:** July 1, 2007, through December 31, 2008

**Landing Fees Paid:** \$4,387,732

**Results:**

Virgin America over reported six aircraft landings during the audit period, resulting in an overpayment of \$2,553 to the Airport. Five of the over reported landings were non-revenue flights that Virgin America did not exclude from the total aircraft landings it reported in August 2007, its first month of operations at SFO. The remaining over reported landing was due to reporting aircraft departures instead of aircraft landings.

Virgin America's response and the Airport's response are attached to this report. The Controller's office, City Services Auditor, will follow up on the status of the recommendations made in this report.

Respectfully submitted,

Robert Tarsia  
Deputy Audit Director

cc: Mayor  
Board of Supervisors  
Civil Grand Jury  
Budget Analyst  
Public Library

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# INTRODUCTION

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## **Audit Authority**

The Office of the Controller (Controller) has authority under the San Francisco Administrative Code, Chapter 10, Article 1, Section 10.6-2 to audit, at regular intervals, all leases of city-owned real property where rent of \$100,000 or more a year is to be paid to the City. In addition, the City Charter provides the Controller, City Services Auditor (CSA), with broad authority to conduct audits. This audit was conducted under that authority and pursuant to an audit plan agreed to by the Controller and the Airport.

## **Background**

Virgin America, Inc. (Virgin America) has an airline operating permit (permit) from the Airport Commission (Commission) of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport (SFO) for its air transportation business. The permit, which commenced on July 1, 2007, requires Virgin America to submit to the Airport Department (Airport) a monthly report showing Virgin America's actual revenue aircraft landings by aircraft type and other landing data necessary to calculate the landing fees. The Airport charges Virgin America a landing fee based on the maximum landing weight of its revenue aircraft landings at SFO. These landings are those for which Virgin America has received or made a monetary fee or charge. For every 1,000 pounds of aircraft landed, the Commission sets a fee that it may change annually. During the audit period, the Airport's fee per 1,000 pounds was \$3.01 for fiscal year 2007-08, and \$3.00 for fiscal year 2008-09.

## **Scope and Methodology**

The purpose of this audit was to determine whether Virgin America complied with the reporting and payment provisions of its permit. The audit covered the period from July 1, 2007, through December 31, 2008.

To conduct this audit, the audit team reviewed the applicable terms of Virgin America's permit and the adequacy of its procedures for recording, summarizing, and reporting revenue aircraft landings. The audit team tested whether Virgin America accurately reported its revenue aircraft landings and the maximum landing weights of its aircraft landed at SFO, and also verified whether Virgin America had any outstanding landing fee payments due to the Airport for the audit period.

This performance audit was conducted in accordance with generally accepted government auditing standards. These standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## AUDIT RESULTS

### Virgin America Overpaid Landing Fees by \$2,553

From July 1, 2007, through December 31, 2008, Virgin America reported 10,373 revenue aircraft landings, for which it paid \$4,387,732 in landing fees to the Airport. However, Virgin America over reported six aircraft landings on its Monthly Air Traffic Activity Reports (MATAR), which resulted in Virgin America overpaying its landing fees by \$2,553.

The exhibits below show Virgin America's reported landings and fees paid (Exhibit 1) and the calculation of the overpaid landing fees (Exhibit 2) based on the number of audited landings.

<b>EXHIBIT 1</b> <b>Number of Reported Landings and Landing Fees Paid July 1, 2007, Through December 31, 2008</b>				
Period	Number of Landings	Total Landing Weight (in lbs)	Rate per 1,000 lbs	Landing Fees Paid
July 1, 2007 - June 30, 2008*	5,662	798,791,600	\$3.01	\$2,404,363
July 1, 2008 - December 31, 2008	4,711	661,113,000	\$3.00	1,983,369
<b>Total</b>	<b>10,373</b>	<b>1,459,904,600</b>		<b>\$4,387,732</b>

\*Note: Virgin America began operations in August 2007.

Sources: Airport reports on landing fees and aircraft landings.

EXHIBIT 2		Calculation of Net Underpaid Landing Fees July 1, 2007, Through December 31, 2008					
Month	Aircraft Type	Official Landing Weights (lbs)	Reported Landings	Audited Landings	Over Reported Landings	Rate per 1,000 lbs	Over Paid Fees
Aug 2007	A320	142,200	179	174	5	\$3.01	\$2,140
Sep 2008	A319	137,800	707	706	1	\$3.00	413
Total			886	880	6		\$2,553

Source: Auditor's analysis.

### **Virgin Over Reported its Aircraft Landings**

Virgin America over reported six aircraft landings on its MATARs because it did not exclude from the total number of reported landings five non-revenue aircraft landings in August 2007, and because it reported departures instead of landings for September 2008, for which there was one extra departure. The August 2007 MATAR included three flights to re-position aircraft at SFO and two inaugural or promotional flights. According to Virgin America's planning director, staff may have reported all landings during their first month of operations at SFO because they were unaware that the five non-revenue landings could be excluded.

### **Recommendations**

The Airport should take the following actions:

1. Credit Virgin America \$2,553 for the fees paid for the six over reported aircraft landings.
2. Advise Virgin America to review its MATARs for accuracy before submitting them to the Airport.
3. Require Virgin America to separately report on its MATAR, the number of non-revenue aircraft landings, if applicable, and the total of the revenue aircraft landings on the space provided for each type of landing.



# ATTACHMENT: AIRPORT'S RESPONSE

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San Francisco International Airport

P.O. Box 40392  
San Francisco, CA 94140  
Tel: (415) 821-5000  
Fax: (415) 821-5005  
[www.sfo.com](http://www.sfo.com)

June 26, 2009

Mr. Robert Tarsia  
Deputy Audit Director  
City Hall, Room 476  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

AIRPORT  
COMMISSION  
CITY AND COUNTY  
OF SAN FRANCISCO

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VICE PRESIDENT

CARLE STO

ELEANOR JOHNS

RICHARD J. GUNDELHIME

JOHN L. MARTIN  
AIRPORT DIRECTOR

**Subject: Virgin America, Inc. Audit Findings**

Dear Robert:

The Airport agrees on the audit findings to credit Virgin America, Inc. ("Virgin") for the overpayment of its landing fees in the amount of \$2,553.00.

Further, the Airport will advise Virgin to review its records thoroughly when reporting future aircraft landings to prevent such errors from occurring again.

If you have any questions, please feel free to call me at (650) 821-4530.

Sincerely,

A handwritten signature in black ink that reads "Dan Ravina".

Dan Ravina  
Property Manager  
Aviation Management

Attachment

Cc: Gary Franzella, SFIA Aviation Management  
Wallace Tang, SFIA Accounting

Recommendation	Responsible Agency	Response
1. Credit Virgin America \$2,533 for the fees paid for the six over reported aircraft landings.	Airport	Airport agrees with the issuance of credit for the over payment of aircraft landing fees in the amount of \$2,553.00.
2. Advise Virgin America to review its MATARs for accuracy before submitting them to the Airport.	Airport	Airport will advise the tenant to review the MATARs for accuracy before submitting them to the Airport.
3. Require Virgin America to separately report on its MATAR, the number of non-revenue aircraft landings, if applicable, and the total of the revenue aircraft landings on the space provided for each type of landing.	Airport	Airport will advise the tenant to accurately report the number of non-revenue aircraft landings and revenue aircraft landing of the MATAR report.

## **ATTACHMENT: VIRGIN AMERICA'S RESPONSE**



July 10, 2009

Robert Tarsia, Deputy Audit Director  
City Hall, Room 476  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA. 94102

Re: Acceptance of Draft Audit of SFO Landing Reports

Dear Robert,

This letter shall serve as our formal acceptance of the draft results of the audit conducted regarding the Landing Report process at SFO airport. Feel free to contact me with any further questions or comments you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "Doug Yakel", with a stylized flourish at the end.

Doug Yakel  
Station Manager - SFO  
(650) 533-5806





